

PERAC AUDIT REPORT



Hampshire County
Contributory Retirement System



JAN. 1, 2005 - DEC. 31, 2007



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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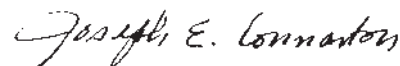
May 12, 2009

The Public Employee Retirement Administration Commission has completed an examination of the Hampshire County Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2005 to December 31, 2007. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the finding presented in this report.

In closing, I acknowledge the work of examiner Robert Madison and University of South Carolina intern Philip Wilkes who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDING AND RECOMMENDATION

Retiree Payroll Confirmation

PERAC auditors inspected the files of recent retirees to determine that the correct benefit was calculated by confirming the wage, age and service factors. We observed that the three-year average salary information is “backed into” from contributions posted to the System for employees. Department-head or supervisor approval and verification of salary information was not found within the files inspected. This policy relies on correct rate assignments and reliable payroll calculations of both the regular and 2% additional contribution deductions. We identified situations from our sample of retirees where there was potentially unreliable data used to calculate the benefit paid. This indicates a compelling case to use actual payroll records to confirm the regular compensation used in the high three year average portion of the benefit calculation.

Recommendation: We recommend that the System require department heads to review and acknowledge the salary history of prospective retirees. Actual payroll records should be used when calculating retirement benefits as required under G.L. c. 32, § 5. Even though the Board has a waiver from submitting the superannuation calculations to PERAC for approval based on the automated system in use, confirming retirement benefits with actual payroll records serves the related purpose of verifying that member’s records are maintained accurately on an on-going basis by the Retirement Board. Calculating earnings solely from the amount of contributions attributed to a members’ payroll deduction percentage may result in some discrepancy in the benefit the member is entitled. Given the incomplete nature of the records we inspected, calculating backwards from annual deductions as the primary criteria for determining a benefit is currently not considered a reliable premise. We strongly advocate the Board perform a comprehensive review of the way retirements are calculated. They must obtain actual earnings from member unit treasurers/disbursement officers and require the treasurers/disbursement officers to approve each prospective retiree’s annual earnings.

Board Response:

The Board response was prepared on behalf of the Hampshire County Retirement Board trustees, by legal counsel, Mr. James H. Quirk, Jr. P.C. in letter form dated April 7, 2009. The Board responds as follows:

1. The auditor requested “payroll” data which was a request for the wrong report, as payroll includes income that is not regular compensation;
2. Nothing provided to the auditors was “unreliable” to parties who are experienced with the records of our member units;
3. No errors or discrepancies in data, nor in retirement calculations were found;
4. My client always performs a comprehensive review of retirement data and employment history;
5. The member unit Treasurers do certify to the accuracy of the reports used by my client;
6. Prior to retirement, benefit calculations are fully explained to the retiring member; and
7. My client acts in 100% compliance with the law and performs good faith practices.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

PERAC Response:

The Hampshire County Retirement Board took the unusual step of engaging their counsel to provide a response to this audit report. A customary “Board Response” usually presents specific details how an issue will be addressed and provides an explanation how the Board intends to implement sufficient improvement to the existing system of internal control. Generally, if such improvements recommended are not feasible, then a statement detailing those specifics is offered along with a viable alternative to address the existing problem.

The Hampshire County Retirement Board response presents several statements concerning the Board’s position on this single audit finding. None of these statements address this particular audit issue. Instead, counsel makes several subjective statements critical of the audit staff; the audit process; and additional subjective statements concerning the Boards’ administrative performance. The response chose to ignore the lack of evidence of “department head or supervisor approval and verification of salary information...”. Our audit report did not relate to the review of wrong payroll or unreliable data, nor did it question the unit Treasurer’s responsibilities or non-compliance with law. We did articulate a lack of existing internal control over the approval and verification of actual compensation information. The Board did not provide any alternative to the recommendation, nor did it address why the PERAC recommendation was considered not feasible to implement.

Consequently, the Audit staff has been instructed to conduct a comprehensive six (6) month follow-up review in an effort to effectively ensure the Board has obtained proper confirmation of member’s regular compensation. At that time, PERAC will determine if the Board has implemented adequate internal control measures to document the proper verification by a department head or supervisor within each member unit.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding this finding.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2007	2006	2005
Net Assets Available For Benefits:			
Cash	\$3,748,654	\$2,714,284	\$4,103,727
Fixed Income Securities	22,300,916	30,409,809	28,506,642
Equities	0	15,829,102	13,754,907
Pooled Domestic Equity Funds	60,408,778	57,592,416	59,072,628
Pooled International Equity Funds	27,861,155	31,731,068	25,621,988
Pooled Global Equity Funds	27,370,884	0	0
Pooled Global Fixed Income Funds	6,674,713	9,282,279	0
Pooled Alternative Investment Funds	17,025,261	3,994,610	1,401,042
Pooled Real Estate Funds	15,698,570	15,429,028	12,517,819
Interest Due and Accrued	198,854	265,448	302,491
Accounts Receivable	570,261	472,220	465,706
Accounts Payable	(5,801)	(1,927)	(405,326)
Total	<u>\$181,852,245</u>	<u>\$167,718,336</u>	<u>\$145,341,625</u>
Fund Balances:			
Annuity Savings Fund	\$55,984,063	\$52,311,179	\$49,134,246
Annuity Reserve Fund	14,980,727	15,133,667	15,076,187
Pension Fund	1,915,003	777,379	2,887,074
Military Service Fund	38,071	30,465	29,558
Expense Fund	0	0	0
Pension Reserve Fund	<u>108,934,381</u>	<u>99,465,647</u>	<u>78,214,559</u>
Total	<u>\$181,852,245</u>	<u>\$167,718,336</u>	<u>\$145,341,625</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2005)	\$45,305,248	\$15,404,236	\$4,938,095	\$28,051	\$0	\$69,227,431	\$134,903,062
Receipts	6,256,197	453,808	10,402,435	1,507	1,160,290	8,977,094	27,251,331
Interfund Transfers	(1,010,838)	1,000,803	0	0	0	10,035	0
Disbursements	(1,416,362)	(1,782,660)	(12,453,456)	0	(1,160,290)	0	(16,812,767)
Ending Balance (2005)	49,134,246	15,076,187	2,887,074	29,558	0	78,214,559	145,341,625
Receipts	6,261,993	445,361	10,952,378	906	1,415,420	21,250,717	40,326,776
Interfund Transfers	(1,527,946)	1,489,273	38,302	0	0	371	0
Disbursements	(1,557,115)	(1,877,155)	(13,100,376)	0	(1,415,420)	0	(17,950,065)
Ending Balance (2006)	52,311,179	15,133,667	777,379	30,465	0	99,465,647	167,718,336
Receipts	6,782,085	441,516	14,357,551	7,606	1,557,473	9,468,681	32,614,913
Interfund Transfers	(1,503,603)	1,503,345	204	0	0	53	(0)
Disbursements	(1,605,598)	(2,097,802)	(13,220,130)	0	(1,557,473)	0	(18,481,004)
Ending Balance (2007)	<u>\$55,984,063</u>	<u>\$14,980,727</u>	<u>\$1,915,003</u>	<u>\$38,071</u>	<u>\$0</u>	<u>\$108,934,381</u>	<u>\$181,852,245</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006	2005
Annuity Savings Fund:			
Members Deductions	\$5,830,711	\$5,564,442	\$5,235,251
Transfers from Other Systems	490,636	348,136	447,613
Member Make Up Payments and Re-deposits	61,616	31,766	232,916
Member Payments from Rollovers	92,261	30,342	75,262
Investment Income Credited to Member Accounts	306,861	287,309	265,156
Sub Total	6,782,085	6,261,993	6,256,197
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	441,516	445,361	453,808
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	443,451	434,362	383,992
Pension Fund Appropriation	384,889	427,951	796,472
	13,529,211	10,090,066	9,221,971
Sub Total	14,357,551	10,952,378	10,402,435
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	7,397	725	1,339
Investment Income Credited to the Military Service Fund	209	182	168
Sub Total	7,606	906	1,507
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	1,557,473	1,415,420	1,160,290
Sub Total	1,557,473	1,415,420	1,160,290
Pension Reserve Fund:			
Federal Grant Reimbursement	1,157	7,991	9,739
Pension Reserve Appropriation	840,832	701,961	601,394
Interest Not Refunded	12,410	14,617	15,363
Miscellaneous Income	0	0	0
Excess Investment Income	8,614,283	20,526,149	8,350,598
Sub Total	9,468,681	21,250,717	8,977,094
Total Receipts	\$32,614,913	\$40,326,776	\$27,251,331

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2007	2006	2005
Annuity Savings Fund:			
Refunds to Members	\$961,873	\$1,057,343	\$715,831
Transfers to Other Systems	<u>643,725</u>	<u>499,771</u>	<u>700,531</u>
Sub Total	<u>1,605,598</u>	<u>1,557,115</u>	<u>1,416,362</u>
Annuity Reserve Fund:			
Annuities Paid	1,920,186	1,846,118	1,778,043
Option B Refunds	<u>177,616</u>	<u>31,038</u>	<u>4,617</u>
Sub Total	<u>2,097,802</u>	<u>1,877,155</u>	<u>1,782,660</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	9,771,931	9,499,194	9,244,130
Survivorship Payments	540,887	530,690	523,179
Ordinary Disability Payments	24,377	48,497	44,985
Accidental Disability Payments	1,561,054	1,613,236	1,374,284
Accidental Death Payments	230,843	247,658	271,318
Section 101 Benefits	57,218	55,552	52,477
3 (8) (c) Reimbursements to Other Systems	1,033,822	1,105,550	943,083
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	0	0	0
Sub Total	<u>13,220,130</u>	<u>13,100,376</u>	<u>12,453,456</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	39,875	33,768	33,768
Salaries	323,700	304,453	284,875
Legal Expenses	5,870	5,940	8,889
Medical Expenses	35	0	127
Travel Expenses	25,012	19,320	19,277
Administrative Expenses	121,935	104,466	75,627
Furniture and Equipment	17,746	46,217	4,981
Management Fees	832,764	701,129	567,698
Custodial Fees	56,913	68,075	51,443
Consultant Fees	80,000	80,000	61,250
Rent Expenses	35,840	35,840	35,840
Service Contracts	0	0	0
Fiduciary Insurance	<u>17,783</u>	<u>16,211</u>	<u>16,514</u>
Sub Total	<u>1,557,473</u>	<u>1,415,420</u>	<u>1,160,290</u>
Total Disbursements	<u>\$18,481,004</u>	<u>\$17,950,065</u>	<u>\$16,812,767</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006	2005
Investment Income Received From:			
Cash	\$213,615	\$207,350	\$111,438
Short Term Investments	0	0	2,229
Fixed Income	1,629,082	1,762,758	1,694,988
Equities	67,772	101,871	107,612
Pooled or Mutual Funds	3,171,832	2,355,230	1,448,638
Commission Recapture	0	0	0
Total Investment Income	<u>5,082,301</u>	<u>4,427,208</u>	<u>3,364,905</u>
Plus:			
Realized Gains	14,812,253	5,655,182	2,707,729
Unrealized Gains	18,300,485	22,304,092	16,063,824
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>198,854</u>	<u>265,448</u>	<u>302,491</u>
Sub Total	<u>33,311,593</u>	<u>28,224,723</u>	<u>19,074,044</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(70,390)	(173,222)	(228,736)
Realized Loss	(2,780,151)	(2,381,756)	(1,240,710)
Unrealized Loss	(24,357,562)	(7,120,040)	(10,471,359)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(265,448)</u>	<u>(302,491)</u>	<u>(268,123)</u>
Sub Total	<u>(27,473,551)</u>	<u>(9,977,510)</u>	<u>(12,208,929)</u>
Net Investment Income	<u>10,920,343</u>	<u>22,674,420</u>	<u>10,230,020</u>
Income Required:			
Annuity Savings Fund	306,861	287,309	265,156
Annuity Reserve Fund	441,516	445,361	453,808
Military Service Fund	209	182	168
Expense Fund	<u>1,557,473</u>	<u>1,415,420</u>	<u>1,160,290</u>
Total Income Required	<u>2,306,060</u>	<u>2,148,271</u>	<u>1,879,422</u>
Net Investment Income	<u>10,920,343</u>	<u>22,674,420</u>	<u>10,230,020</u>
Less: Total Income Required	<u>(2,306,060)</u>	<u>(2,148,271)</u>	<u>(1,879,422)</u>
Excess Income To The Pension Reserve Fund	<u>\$8,614,283</u>	<u>\$20,526,149</u>	<u>\$8,350,598</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2007			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$3,748,654	2.1%	100%
Short Term	0	0.0%	100%
Fixed Income	22,300,916	12.3%	40%-80%
Pooled Domestic Equity Funds	60,408,778	33.4%	
Pooled International Equity Funds	27,861,155	15.4%	
Pooled Global Equity Funds	27,370,884	15.1%	
Pooled Global Fixed Income Funds	6,674,713	3.7%	25%
Pooled Alternative Investment Funds	17,025,261	9.4%	
Pooled Real Estate Funds	15,698,570	8.7%	
Grand Total	<u>\$181,088,931</u>	<u>100.0%</u>	

For the year ending December 31, 2007, the rate of return for the investments of the Hampshire County Retirement System was 5.76%. For the five-year period ending December 31, 2007, the rate of return for the investments of the Hampshire County Retirement System averaged 12.34%. For the twenty three-year period ending December 31, 2007, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Hampshire County Retirement System was 9.49%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Hampshire County Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

March 26, 2004

16.04 The Hampshire County Retirement System is authorized to act as custodian of the records of investment of the Board's assets invested in Real Estate and Alternative Investments. The Hampshire County Retirement Board shall insure that the Commission will be provided the reports and information required pursuant to 840 CMR 4.00. This exemption shall apply to the Board's following investments:

Ascent Venture Partners III, Ascent Venture Partners IV, Henderson Real Estate Investors (RESA), Intercontinental Real Estate Investment Fund III, L&B Property Fund IV, Sentinel Realty Partners II, and Sentinel Realty Partners VII

Please be further advised that these supplemental regulations are made retroactive for those years not yet audited by PERAC.

January 12, 2004

16.08 In accordance with PERAC Investment Guideline 99-3, the Hampshire County Retirement Board is authorized to invest in Ascent Venture Partners IV, L.P. The Board has been a satisfied investor in Ascent Venture Partners III and has submitted updated regulatory documents pertaining to its current and future investments with Ascent.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Hampshire County Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$687.96 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Hampshire County Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

July 20, 2004

New Retiree Beneficiary Selection Form

December 12, 1984

Employees who work more than 20 hours per week must become members in the Hampshire County Retirement System. Employees who have worked 130 days per year and whose pay is at least \$3,500.00 must become members of the retirement system.

Employees who qualify for membership and work the minimum of twenty (20) hours per week but less than forty (40) hours per week shall be granted creditable service prorated on the basis of a forty-hour week.

Cafeteria Workers and Teacher Aides who regularly work five (5) hours or more per day shall be granted full time creditable service. Full time service means forty (40) hours a week.

Call firefighters and reserve police officers that earn \$250.00 or more per year must join the retirement system.

Creditable Service for Reserve police officers and call firefighters shall be credited as one (1) year for each five (5) years worked not to exceed five (5) years, provided that the call firefighter or reserve police officer is later appointed a permanent member of the force.

Refunds to former members for interest earned shall be calculated and granted according to actual service time not creditable service time for call firefighters and intermittent police.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Chairman who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member:	Patrick E. Brock	Term Expires:	12/31/08
Appointed Member:	John J. Lillis, III	Term Expires:	12/31/08
Elected Member:	Edward R. Montleon	Term Expires:	12/31/08
Elected Member:	Joseph A. Wilhem, III	Term Expires:	12/31/10
Appointed Member:	John B. Walsh	Term Expires:	12/16/10

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	MACRS Policy
Ex-officio Member:)	\$50,000,000
Elected Member:)	St. Paul Travelers, National Union
		Fire and Arch Insurance Companies
Appointed Member:)	
Staff Employee:)	

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Segal Company as of January 1, 2007.

The actuarial liability for active members was	\$129,504,381
The actuarial liability for retired members was	<u>128,381,054</u>
The total actuarial liability was	<u>257,885,435</u>
System assets as of that date were	<u>163,497,369</u>
The unfunded actuarial liability was	<u>\$94,388,066</u>
 The ratio of system's assets to total actuarial liability was	 63.4%
As of that date the total covered employee payroll was	\$68,107,991

The normal cost for employees on that date was 8.65% of payroll

The normal cost for the employer was 5.53% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.25% per annum
 Rate of Salary Increase: 4.75% and 5.25% per annum varies by group and service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2007

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2007	\$163,497,369	\$257,885,435	\$94,388,066	63.4%	\$68,107,991	138.59%
1/1/2006	\$149,892,383	\$254,808,289	\$104,915,906	58.8%	\$66,219,596	158.44%
1/1/2004	\$129,875,787	\$228,468,240	\$98,592,453	56.8%	\$61,370,678	160.65%
1/1/2002	\$128,007,362	\$196,323,603	\$68,316,241	65.2%	\$58,453,919	116.87%
1/1/2000	\$109,844,400	\$173,148,000	\$63,303,600	63.4%	\$52,500,000	120.58%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Retirement in Past Years										
Superannuation	50	38	40	35	32	64	50	23	30	32
Ordinary Disability	1	0	1	1	0	0	0	0	1	0
Accidental Disability	2	2	2	1	4	5	3	1	3	2
Total Retirements	53	40	43	37	36	69	53	24	34	34
Total Retirees, Beneficiaries and Survivors	881	886	893	920	932	973	994	987	992	984
Total Active Members	2,459	2,239	2,664	2,516	2,660	2,627	2,610	2,638	2,665	2,654
Pension Payments										
Superannuation	\$5,012,051	\$5,408,287	\$6,078,058	\$6,401,617	\$7,032,476	\$8,016,849	\$8,967,457	\$9,244,130	\$9,499,194	\$9,771,931
Survivor/Beneficiary Payments	352,331	365,910	355,961	379,840	494,591	536,000	504,747	523,179	530,690	540,887
Ordinary Disability	110,087	107,894	101,794	106,941	91,544	79,353	50,506	44,985	48,497	24,377
Accidental Disability	1,015,673	1,025,626	1,090,871	1,122,824	1,121,283	1,245,374	1,362,414	1,374,284	1,613,236	1,561,054
Other	921,627	962,969	483,082	1,020,831	1,540,677	1,331,279	1,253,030	1,266,878	1,408,759	1,321,883
Total Payments for Year	<u>\$7,411,769</u>	<u>\$7,870,686</u>	<u>\$8,109,766</u>	<u>\$9,032,053</u>	<u>\$10,280,571</u>	<u>\$11,208,855</u>	<u>\$12,138,154</u>	<u>\$12,453,456</u>	<u>\$13,100,376</u>	<u>\$13,220,130</u>

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